SC199547

Scottish Widows Group Limited

Annual Report and Accounts
2021

Member of Lloyds Banking Group

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COMPANY INFORMATION

Board of Directors

S J O'Connor (Chair)

W L D Chalmers
J E M Curtis
D L Davis
J C S Hillman*
A Lorenzo*
C J G Moulder
A J Reizenstein
G E Schumacher

* denotes Executive Director

Company Secretary

J M Jolly

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Registered Office

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Company Registration Number

SC199547

STRATEGIC REPORT

The Directors present their strategic report on Scottish Widows Group Limited ("the Company") for the year ended 31 December 2021. The Company is registered in Scotland and is a private company limited by share capital.

The Company contributes to the results of the Insurance and Wealth Division of Lloyds Banking Group plc. Scottish Widows was founded in 1815, and since then we have been focused on helping customers protect themselves today whilst preparing for a secure financial future. Our objective is to be the best insurance and retirement savings business for customers; providing simple, trusted, value for money products accessible through our customers' preferred channels.

Principal activities

The Company's principal activity is that of a holding company. Its three directly owned subsidiaries are Scottish Widows Limited, Lloyds Bank General Insurance Holdings Limited and Scottish Widows Financial Services Holdings.

The Company has an interest in the life assurance and pensions sector through its investment in Scottish Widows Limited and general insurance through its investment in Lloyds Bank General Insurance Holdings Limited.

Specific risks are addressed in the financial statements of individual subsidiary companies and items identified in these financial statements summarise these. For example, the Company does not have direct dealings with customers or employees other than through its subsidiaries.

Result for the Year

The result for the year ended 31 December 2021 is a profit after tax of £169.3 million (2020 profit: £480.9 million). Total equity for the Company increased by £850.8 million, primarily due to £560.0 million of new shares issued in the year, the restructure of the subordinated debt resulting in a net increase in equity instruments of £199.6 million and the retained profit for the year.

Long term impact of the UK's exit from the EU

Uncertainties in respect of the medium to long-term implications of the UK's exit from the European Union (EU) on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. Activity to respond to potential risks include customer communications, market volatility scenario exercises, contingency planning and monitoring of emerging European Economic Area (EEA) regulatory requirements. The impact on the Company would appear in the form of reduced dividends receivable from subsidiary companies and charges to profit related to any impairment of the holdings in these companies.

Covid-19

The Covid-19 (Coronavirus) outbreak has impacted Global economies throughout the year creating an ongoing period of volatility in financial markets. At the beginning of the Coronavirus outbreak the UK experienced significant volatility in market prices, however market liquidity remains relatively strong and so does the ability to trade in size across most asset classes.

The Company's resilience to such events is regularly reviewed through stress and scenario testing. Plans to continue to operate Important Business Services are in place and continue to be reviewed in light of the Covid-19 outbreak. The Covid response framework will be triggered if there are any strains in the operational environment.

The Directors believe that there will be limited impact on the Company.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company's results of operations, financial condition or prospects. The Company will monitor the situation and risks to the business.

Climate Change

Lloyds Banking Group is committed to supporting the aims of the 2015 Paris Agreement, the UK Government's Net Zero target and Ten Point Plan for a Green Industrial Revolution, in transitioning to a more sustainable, low carbon economy and recognises the importance of embedding climate-related risks and opportunities into business operations and strategy.

Scottish Widows has published a climate plan that sets out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, formulated in a manner that prioritises customer goals within decision-making.

Lloyds Banking Group is supportive of the TCFD (Task Force on Climate Related Financial Disclosures) framework and related regulatory expectations, and aligned to best practice outlined by the Climate Risk Financial Forum (CFRF) has published a TCFD aligned report at the parent entity level (Scottish Widows Group).

The full Scottish Widows TCFD report is available on the Scottish Widows website.

STRATEGIC REPORT (continued)

Climate Change (Continued)

Governance

Given the strategic importance in managing the impacts of climate change, the Lloyds Banking Group's governance structure provides clear oversight and ownership of the sustainability strategy and management of climate-related risk.

Governance for climate-related risk has been embedded into the existing governance structure and is complementary to the governance of Lloyds Banking Group's sustainability strategy. Two new committees have been formed during 2021:- Insurance Sustainability Committee (a committee of the Board of Directors) and the Responsible Business Executive Committee.

Risk Management

The Lloyds Banking Group has a well-established and robust risk management framework used to identify, measure, monitor, manage and report the risks faced by the business. Climate Risk will be managed using this framework, consistent with all other risks.

Climate Risk has been integrated into Lloyds Banking Group's existing risk management framework following consideration of how the effects of Climate Change may impact both the risk profile and business model, by:

- Embedding new, or developing existing, processes for the identification and management of climate-related risk;
- Adding Climate Risk to both the Lloyds Banking Group and the Insurance Enterprise Risk Management (ERM) Frameworks as a Primary Risk;
- Reflecting the impact of Climate Risk as a risk driver on all other risks within the ERM Framework;
- Creating a Climate Risk Policy that provides an overarching framework and principles and requirements for the management of climate risks across the Lloyds Banking Group and;
- Adding Climate Risk to the Risk Appetite Framework with Board level Risk Appetite Statements.

Strategy

Lloyds Banking Group's position as a large investor presents an opportunity to participate in and influence the transition for the long-term benefit of customers and society. Lloyds Banking Group has set goals to target a 50% reduction in the carbon intensity (across the investment portfolio of customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. Lloyds Banking Group also back climate solutions for real-world impact, and the use of engagement and shareholder voting power to drive companies to make the changes necessary. Further detail can be found in the Climate Action Plan published in February 2022.

Climate related scenario analysis is an evolving area that is important to the business and will be used to produce insightful outputs that aids the understanding of Climate Risk and supports decision making.

Metrics and Targets

There has been a focus on expanding climate-related metrics during 2021, not just for disclosures but also for internal risk management. This includes the construction of value adding risk appetite statements for regular reporting to the Board and internal metrics for monitoring progress of the net zero transition.

The portfolio's "carbon footprint" is the principal metric for measuring financed emissions and monitoring progress toward the 2030 and 2050 net zero targets. The footprint is the total tonnes of carbon dioxide equivalents (CO_2e) "owned" by the portfolio and scaled by £million invested.

Measurement initially includes the Scope 1 and 2 (i.e. operational) emissions of investee companies.

Key performance indicators

The Company's principal business during the year was the holding of investments in subsidiaries. Its principal income is the receipt of dividends from these subsidiaries. In 2021, £310 million of dividends were received from subsidiary undertakings (2020: £560 million).

The Directors are of the opinion that the above is the key performance indicator which is appropriate to the principal activity of the Company.

Solvency II

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future.

The Company is designated as the Solvency II holding company for the Scottish Widows Group (SWG) Solvency II group. On a Solvency II basis, the regulatory surplus of the SWG Solvency II group in excess of capital requirements is £3.2 billion (2020: £2.5 billion). The Solvency II ratio for SWG Solvency II group of 192 per cent (2020: 152 per cent) represents the shareholder view of Solvency II surplus.

STRATEGIC REPORT (continued)

Key performance indicators (continued)

Other Sources where KPIs are presented

The Company also forms part of Lloyds Banking Group's Insurance and Wealth Division. The development, performance and position of the Insurance and Wealth Division are presented within Lloyds Banking Group's Annual Report, which does not form part of this report.

Review of the business

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Board for due consideration and approval.

Investment in subsidiaries

Following an impairment review of the carrying values of subsidiary companies, a charge of £107.8 million (2020: £58.6 million) has been made to comprehensive income representing impairment in value of the holding in Scottish Widows Financial Services Holdings.

Legacy customer communications

The Company has an investment in Lloyds Bank General Insurance Holdings Limited (LBGIH). Following the published findings of an investigation into the way the General Insurance business unit had communicated with home insurance customers about renewal of their policies between 2009 and 2017, the FCA imposed a fine of £90.7 million that was attributed to subsidiary companies of LBGIH. The penalty was settled in full by those companies on 16 July 2021.

Subordinated Debt restructure and share redemption

During the year the Company undertook a restructure of the capital structure, renegotiating interest rates due to the cessation of the LIBOR measure and redeeming ordinary B shares and preference shares together with existing subordinated debt subject to LIBOR interest rates. New subordinated debt was issued referencing SONIA rates. Further details appear in the notes 12, 13 and 14 to the accounts.

Acquisition of the Embark Group of companies

The Company identified the Embark Group as a potential acquisition and incurred pre-acquisition costs in the year. Embark Group is an investment and retirement platform business. The Company completed the acquisition after the balance sheet date, on 31 January 2022 and further details appear in note 22 to the accounts.

Outlook

The Directors consider that the Company's principal activities will continue to be unchanged in the foreseeable future.

Principal risks and uncertainties

Key risks include economic and political uncertainty alongside operational risk which is heightened by the current level of change being undertaken to execute our strategy. Risks and uncertainties to our strategic plan, both positive and negative, are considered by product through the planning process.

The Company's approach to the management of financial risks is detailed in Note 18 to the accounts.

In addition, during the ordinary course of business subsidiaries of the Company may be subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. Other than the legacy customer communications referred to above, the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors of the Board of the Company provide this Statement, which describes the ways in which they have had regard to the following matters set out in Section 172(1) of the Act when fulfilling their key duty to promote the success of the Company, under Section 172:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster business relationships with the Company's suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- Maintaining a reputation for high standards of business conduct for the Company; and
- The need to act fairly as between the Company's shareholders.

This Statement also provides examples of how the Directors have engaged with and had regard to the interests of key stakeholders in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018). The Company is a subsidiary of Lloyds Banking Group, and as such follows many of the processes and practices of Lloyds Banking Group, which are further referred to in this Statement where relevant.

The Board is collectively responsible for the long-term success of the Company. Understanding the views and interests of our key stakeholders (this includes customers, shareholders, communities, the environment, regulators, and suppliers), is central to the Company's strategy, crucial to the Company's success, and informs key aspects of Board decision-making as set out in this Statement. Stakeholder engagement is embedded in all aspects of the Board's decision-making and can be seen in the range of activities across key stakeholder groups.

How the Board has discharged its Section 172 duties

The Directors, as part of their appointment and induction to the Board, are provided with a briefing on their statutory director duties and the standards required to be met by subsidiary boards within Lloyds Banking Group. The Board undertakes an annual review of its governance arrangements, in particular of the matters it has reserved for its own determination and those for which it has delegated authority to management. This arrangement is designed to enable the Board to provide effective, sound, and entrepreneurial leadership of the Company within Lloyds Banking Group's strategic aims and prudent and effective controls.

Stakeholder engagement is embedded in the Board's delegation to the Chief Executive Scottish Widows & Group Director Insurance ("Chief Executive") for the delivery of the Company's strategy and overall management of the Company's business within its defined risk appetite. Examples of related actions taken during the year are included within this Report. The Chief Executive discharges his responsibility for the day-to-day management of the Company's business by delegating key areas of his authority to members of management and with the assistance of the Executive Committee (the Insurance & Wealth Executive Committee ("IWEC")) which enables him to make informed decisions about the operations of the Company's business.

The Chief Executive and management both provide the Board with details of material stakeholder interaction and feedback, through a programme of business updates. Stakeholder interests are routinely identified by management in the wider proposals put to the Board. During 2021 (as in 2020) interaction with stakeholders evolved in response to the UK Governments' ongoing provisions on the COVID-19 global pandemic and the Company has made use of tools that enable virtual engagement.

Further details of how the Board considers each of the specific matters set out in Section 172, along with specific examples of how these considerations have influenced decisions taken by the Board, are set out in pages 7 to 11 which serves as the Company's Section 172(1) Statement.

Customers

The Board's understanding of the wider Lloyds Banking Group customer's needs is vital in setting and achieving the Company's goals. Customer needs and a customer-centric approach remain therefore a key consideration in Board decisions.

COVID-19 Response

The Covid-19 pandemic impacted customers, colleagues and the operation of business of the wider Lloyds Banking Group in a number of ways including heightened telephony demand from customers who were themselves managing immediate pandemic impacts, alongside a transition to remote working for colleagues and third-party partners and the emergence of a sustained, heightened expectation among customers for digital engagement channels. Some areas continued to experience Covid-19 related impacts into 2021 and these remain a consistent Board and management focus.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Delivering Value for Customers

In 2021, alongside ongoing proposition developments, the Board of the Company gave time to consider an inorganic opportunity and on 31 January 2022 completed the acquisition of Embark Group. That acquisition is designed to improve the Group's capabilities in serving certain market segments and to enable the re-platforming of Scottish Widows' pensions and retirement proposition in due course to deliver a modern, mass market, direct-to-customer proposition.

Helping Britain Recover

The Board continues to participate appropriately in all Lloyds Banking Group related initiatives. The lasting social and economic effects on the UK as it emerges from the early impacts of the Covid-19 pandemic have been a focus of Lloyds Banking Group and its Helping Britain Recover Plan, building on its Helping Britain Prosper ambitions. The focus of Lloyds Banking Group's purpose will evolve in response to the current environment and changing customer needs and expectations. Helping rebuild UK households' financial health and wellbeing and accelerating the transition to a low-carbon economy are key commitments within the Helping Britain Recover Plan.

Lloyds Banking Group continues to invest significantly in the development of its Insurance business, which the Company forms part of, with a focus on supporting customers' long-term financial resilience and ambitions to deliver good outcomes for customers in a sustainable way. Further information on Lloyds Banking Group's initiatives can be found in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group, forming part of its Insurance & Wealth Division. As a wholly owned subsidiary, the Board ensures that the strategy, priorities, processes, and practices of the Company are aligned where appropriate to those of Lloyds Banking Group, ensuring that its interests as the Company's shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included in the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2021, available on the Lloyds Banking Group website.

The relationship between the Board of the Company and the Board of Lloyds Banking Group is supported by at least one senior leader from the Group serving as a Director on the Insurance Board throughout all of 2021. A number of Lloyds Banking Group Independent Non-executive Directors were also welcomed as observers at meetings of the Insurance Board during 2021. The Board of the Company also welcomed that the Lloyds Banking Group Chair and the Lloyds Banking Group Chief Executive Officer (who was appointed in August 2021) both took part in some Board discussions during 2021 and debate included ways to optimise the relationship between the two Boards.

Communities and the Environment

The Company is part of Lloyds Banking Group, one of the largest financial service providers in the UK and whose goals are to be a trusted, sustainable and responsible business.

The Responsible Business Committee of the Board of Lloyds Banking Group is responsible for oversight of the Group's performance as a Responsible Business and has given much focus to oversighting the development of Lloyds Banking Group's Helping Britain Recover/Prosper Plan. This plan continues its strategy of Helping Britain Prosper while also playing a part in the UK's recovery from the Covid-19 pandemic. The views of stakeholders have informed the Responsible Business Committee's role in the development of Lloyds Banking Group's Society of the Future ambitions, which aim to fully integrate its societal objectives with its business objectives.

In September 2021, the Board of the Company established its own Insurance Sustainability Committee ("ISCo"), with membership drawn primarily from Independent Non-Executive Directors in addition to the Chief Executive. The primary purpose of the Insurance Sustainability Committee is to review the ESG Strategy of the Insurance business, and its alignment to Lloyds Banking Group's overarching purpose of Helping Britain Recover and Prosper in the future. Alongside the Insurance Sustainability Committee, the Company's Insurance People Committee continues to consider, amongst other things, matters related to culture and in 2021 has debated various Inclusion & Diversity matters and initiatives. The Chairs of the Insurance People Committee and the Insurance Sustainability Committee work together to ensure that there is appropriate coverage of all environment and social matters between them.

The Board as a whole is engaged on a regular basis on the Insurance business and Company's sustainability agenda, receiving regular briefings to build understanding and capability. Directors also attend relevant external briefings. In July 2021, the Board undertook climate risk training supported by the Cambridge Institute of Sustainability Leadership.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Climate Risk

Approval of proposed external commitments in relation to climate risk that materially impact the Company or the Company's funds are matters reserved to the Board. The Insurance Sustainability Committee on behalf of the Board considers the Company's management of climate risk and relevant public disclosures, providing oversight and challenge on those activities which impact on the Company's reputation as a responsible business.

Responsible Stewardship

The Board monitors the Company's overall investment strategy and performance giving due consideration to wider Group and Scottish Widows' Responsible Investment and Stewardship Framework. This is a principles-based framework which guides the Company's decisions on the investments made, the fund managers selected, research into funds, and how the Company engages with companies it invests in. Research conducted by Scottish Widows to find out investor views on a wide range of sustainable investment themes, has informed this Framework which is available on the Scottish Widows website.

Environmental Ambitions

The Board of the Company have supported some ambitious Lloyds Banking Group targets in relation to ESG and climate change. Lloyds Banking Group's aim is to increase investment in companies adapting their businesses to be less carbon-intensive and to invest in climate aware strategies (funds that have a materially lower carbon intensity than their benchmark) by 2025; achieve a 50 per cent reduction in the carbon emissions of the Company's overall funds under management by 2030; and get to net zero emissions by 2050. The Board intends to provide more detail of how it is going to hit these targets over future years. The Board believes that the ESG commitments that Lloyds Banking Group and Scottish Widows has made will not negatively impact investment returns for customers and is monitoring closely.

The Board is regularly updated on the work undertaken by the Scottish Widows' Responsible Investment Team with key stakeholders including the UK government, regulators, and the pensions industry to unlock opportunities to invest in the infrastructure required to successfully transition to a lower carbon economy.

Further detail on the Company's strategy in relation to environmental ambitions is covered in the Climate Change section commencing on page 4 of this report.

Board diversity

The Board considers its current size and composition to be appropriate to the Company's circumstances. The Board places great emphasis on ensuring its membership reflects the diversity of modern Britain and is inclusive for everyone. On gender diversity, the Board has a specific objective to maintain membership of at least 33% female Board members. At 31 December 2021, the Board's membership consisted of 38% female members. With effect from 18 March 2021, the Board has met the objectives of the Parker review for at least one Black, Asian and Minority Ethnic Board member. The Company also supports the Lloyds Banking Group high-level approach to diversity in senior management roles, which is governed in greater detail through Lloyds Banking Group policies.

Regulators

The Board maintains strong, open, and transparent relationships with regulators and relevant government authorities. Liaison with regulators and the Government, both directly and as part of Lloyds Banking Group, is an ongoing priority at all levels of the organisation, ensuring Lloyds Banking Group and the Company's strategic aims align with the requirement of these important stakeholders. In November 2020 and July 2021 respectively, the Board invited representatives from the Financial Conduct Authority and Prudential Regulation Authority respectively to join one of its meetings to discuss key priorities. In addition, individual directors have in the ordinary course of business continuing discussions with regulators on various matters within the regulatory agenda. Regulatory engagement provides a view of the key areas of regulatory focus to management and the Board with monitoring of regulatory actions in place.

On 8 July 2021 the FCA published the findings of an investigation into how certain subsidiaries of Lloyds Bank General Insurance Holdings Limited communicated with Home Insurance customers of those companies between 2009 and 2017 and issued a fine of £90.7 million impacting four of those companies. The Board and management took the issues extremely seriously and communications with customers of those companies are now very different with more robust processes in place to make sure they are fully reflective of customers' situations.

Suppliers

As part of Lloyds Banking Group, the Company has entered into a number of strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the Company relies on supplier arrangements within Lloyds Banking Group for certain services. The Board recognises the importance of its role in overseeing these relationships, which are integral to the Company's future success.

Recognising the role of suppliers in the Company's day-to-day operations and its future ambitions, the Board undertakes regular reviews of its key suppliers, including its asset managers and its outsourced service providers. These reviews take into consideration supplier feedback on the Company's processes for potential improvement.

STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

An advantage of being part of the larger Lloyds Banking Group means there are robust processes in place to monitor and review costs with third parties who provide services to the Company's funds. The outsource business model allows the Company to negotiate competitive fees and commercial terms with its service suppliers to control costs for all the Company's customers.

Supplier Experience

Importance is placed on having the right supplier framework to operate responsibly. Lloyds Banking Group's Sourcing & Supply Chain Management Policy applies to all its businesses, divisions and subsidiaries, including the Company, with the Directors assuming ultimate responsibility for the application of that policy in a way that is appropriate for the Company. As a result, the most significant supplier contracts must be approved by the Board, including those which are key in progressing strategic priorities. Recognising the role of suppliers in the Company's day-to-day operations and its future ambitions, the Board undertakes regular reviews of its key suppliers and takes into consideration supplier feedback where applicable on the Company's processes for potential improvement.

Suppliers are required to adhere to relevant Lloyds Banking Group policies and comply with its Code of Supplier Responsibility, which can be found on the Lloyds Banking Group website. This defines expectations for responsible business behaviour, underpinning the efforts of the Company and Lloyds Banking Group to share and extend good practice. All material contracts are subject to rigorous cost management governance with regular review of key supplier risks.

Modern Slavery

The Responsible Business Committee of the Board of Lloyds Banking Group – as part of its oversight of its performance (including that of the Company, as a Responsible Business) – governs Lloyds Banking Group's approach to human rights. The Insurance People Committee, on behalf of the Company, considers matters at a Company level.

On a day-to-day basis, management of and engagement on modern slavery and human rights is guided by a cross-divisional working group led by the Responsible Business team, which meets regularly to assess the embedding of human rights within the Lloyds Banking Group's operations.

Lloyds Banking Group, and the Company, have a zero-tolerance attitude towards modern slavery in its supply chains. Lloyds Banking Group's Modern Slavery & Human Trafficking Statement and Human Rights Policy Statement are published on its website and cover all its subsidiary companies, including the Company, which is required to publish an annual statement. This statement sets out the steps taken to prevent modern slavery in Lloyds Banking Group's business and supply chains. On an annual basis, the Insurance Sustainability Committee reviews these statements ahead of Board approval.

Maintaining a Reputation for High Standards of Business Conduct

The Board supports the Chief Executive to ensure a culture of customer focus (including treating customers fairly), risk awareness and ethical behaviours. As part of the Board's oversight of this, the Board where necessary will seek assurance that management corrective action has been taken to ensure that policy and behaviours are aligned to the purpose, value, and strategy of the wider Insurance business.

On behalf of the Board of Directors

J C S Hillman

Director

6 April 2022

DIRECTORS’ REPORT

The Directors present the audited financial statements of the Company The Company is a wholly owned subsidiary of Lloyds Banking Group plc.

Results and dividend

The result for the year ended 31 December 2021 is a profit after tax £169.3 million (2020 profit: £480.9 million). The result for the year reflects income from shares in subsidiaries and investments and the impairment of the investment in a subsidiary company. The reduction in profit is due to less dividend income received from subsidiary companies (£250 million), combined with increased impairment charges (£49 million) and one off pre-acquisition costs (£14 million).

The Directors consider this result to be satisfactory in light of the activities of the Company during the year.

During the year, £74.1 million of dividends (2020: £548.9 million) were paid. The Directors recommend no payment of a final dividend in respect of the year ended 31 December 2021 (2020: nil). Details of dividends paid during the year are given in note 17.

Directors

The names of the current Directors are listed on page 3. Changes in Directorships during the year and since the end of the year are as follows:

J F Hylands	Resigned 31 March 2021
A J Reizenstein	Appointed 23 April 2021
J R A Bond	Resigned 14 May 2021
K Cheetham	Resigned 9 September 2021
N E T Prettejohn	Resigned 30 September 2021
D L Davis	Appointed 18 March 2022

Particulars of the Directors’ emoluments are set out in note 19.

Directors’ indemnities

Lloyds Banking Group plc has granted deeds of indemnity by deed poll and by way of entering into individual deeds, which for the purposes of the Companies Act 2006 constitute 'qualifying third-party indemnity provisions', to the directors of its subsidiary companies, including those of the Company and its subsidiaries. Such deeds were in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Directors who join the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company’s auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

Future developments

Future developments are detailed within the Strategic Report and also in note 21.

Corporate Governance Report

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the ‘Regulations’), for the year ended 31 December 2021, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the ‘Principles’). The following section explains the Company’s approach to corporate governance, and its application of the Principles.

Fundamental to the Company’s strategy are high standards of corporate governance. A Corporate Governance Framework is in place for Lloyds Banking Group, which sets the approach and applicable standards in respect of the Company’s corporate governance arrangements whilst addressing the matters set out in the Principles.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management, including decision-making on operational matters such as those relating to credit, liquidity and the day-to-day management of risk, and the governance requirements of the operation of the Company outside of Lloyds Banking Group's Ring-Fenced Bank. Governance arrangements, including the Corporate Governance Framework, are reviewed at least annually to ensure they remain fit for purpose. The Corporate Governance Framework of the Company further addresses the requirements of the Principles as follows.

Principle One – Purpose and Leadership

The Board is collectively responsible for the long-term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group, and overseeing delivery against it. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by Lloyds Banking Group.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers, is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board (supported by one or more of its Committees) plays a lead role in establishing, promoting and monitoring the Company's corporate culture and values, with the Corporate Governance Framework ensuring such matters receive the appropriate level of prominence in Board and Executive decision-making. The Company's corporate culture and values align to those of Lloyds Banking Group, which are discussed in more detail in the Lloyds Banking Group annual report and accounts for 2021.

Principle Two – Board Composition

The Company is led by a Board comprising a Chair, Independent Non-Executive Directors, other Non-Executive Directors and Executive Directors; further details of the Directors can be found on page 3.

The Board reviews its composition regularly, and is committed to ensuring it has the right balance of skills and experience. The Board considers its current size and composition is appropriate to the Company's circumstances and places great emphasis on ensuring its membership reflects diversity in its broadest sense, for example three out of eight Directors in office at 31 December 2021 are women, increasing to four following the appointment of Deborah Davis on 18 March 2022, and meeting from that date the Parker Review requirement to have at least one Black, Asian and Minority Ethnic Board member. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring overall. There are a range of initiatives to help provide mentoring and development opportunities for female and Black, Asian, and Minority Ethnic executives within Lloyds Banking Group, and to ensure unbiased career progression opportunities.

The Board is supported by its Committees, the operation of which is discussed below, which make decisions and recommendations to the Board according to the matters delegated to them, in particular in relation to internal controls, risk oversight, ESG strategy, culture and financial reporting. Each committee has written terms of reference setting out its delegated responsibilities. Each committee comprises individuals with appropriate skills and experiences and is chaired by a suitably skilled and experienced Chair. The committee Chairs report to the Board at each Board meeting.

The Board periodically undertakes self-reviews of its effectiveness, which provide an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlight areas of further development. The effectiveness reviews are commissioned by the Chair of the Board, assisted by the Company Secretary. In addition to considering the effectiveness of the Board, the effectiveness of the Board committees is also considered. The Chair also ensures that the individual performance of individual Directors is reviewed.

Principle Three – Director Responsibilities

The Directors assume ultimate responsibility for all matters which concern the operation of the Group's business, and along with senior management, are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation though the Corporate Governance Framework. Policies are also in place in relation to potential conflicts of interest which may arise.

The Board is supported by its Committees, which make recommendations on matters delegated to them under the Corporate Governance Framework. The management of all committees is in keeping with the basis on which meetings of the Board are managed, with open debate, and adequate time for members to consider proposals which are put forward. The Chair of the Board and each Board Committee assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

Principle Four – Opportunity and Risk

The Board oversees the development and implementation of the Company's strategy, within the context of the wider strategy of Lloyds Banking Group, which includes consideration of all strategic opportunities.

The Board is also responsible for the long-term sustainable success of the Company, generating value for its shareholders and making a positive contribution to society. The Board agrees the Company's culture, purpose, values and strategy - within that of Lloyds Banking Group more widely - and agrees the related standards of the Company, again within the relevant standards of Lloyds Banking Group. Further specific aims and objectives of the Board are formalised within the Corporate Governance Framework.

Strong risk management is central to the strategy of the Company which, along with a robust risk control framework, serves as the foundation for the delivery of effective management of risk. The Board approves the Company's risk appetite, within the wider risk appetite of Lloyds Banking Group, and ensures the Company manages risk effectively, delegating related authorities to individuals through the Corporate Governance Framework and the further management hierarchy. Board level engagement - coupled with the direct involvement of senior management in risk issues - ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Lloyds Banking Group and, as such, are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principal risks are discussed further on page 38.

Principle Five – Remuneration

The Remuneration Committee of Lloyds Banking Group (the 'Remuneration Committee'), assumes responsibility for the Company's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Company, ranging from the remuneration of Executive Directors to that of all other colleagues employed by the Company. This includes colleagues where the regulators require the Company to implement a specific approach to their remuneration, such as Senior Managers and other material risk takers.

Principle Six – Stakeholders

The Company as part of Lloyds Banking Group operates under Lloyds Banking Group's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces and, as part of this, understand the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Lloyds Banking Group's Helping Britain Recover and Prosper plan, in which the Company participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by Lloyds Banking Group's Responsible Business Committee.

In 2021, the Responsible Business Committee determined that the Company and Lloyds Banking Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the Board in respect of its non-colleague stakeholders is described in the separate s172 statement made in compliance with the Regulations, on page 7.

The Company established a Board Sustainability Committee during 2019 to focus on the ESG Strategy of the Insurance business, and its alignment to Lloyds Banking Group's overarching purpose of Helping Britain Recover and Prosper in the future.

Going concern

The going concern of the Company is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in note 18, under principal risks and uncertainties: funding and liquidity in note 18(5) and capital position in note 18(4) and additionally have considered projections (including stress testing) for the Company's capital and funding position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Information incorporated by reference

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Content		Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of other stakeholder engagement	Strategic report
Disclosures required by the Financial Conduct Authority's Disclosure and Transparency Rule 7.2.5R		Note 18 (Risk Management)

DIRECTORS' REPORT (continued)

Independent auditors

Following the resignation of PricewaterhouseCoopers LLP on 13 May 2021, Deloitte LLP were appointed as auditors of the Company by resolution of the members dated 20 May 2021.

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and . Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

– the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Company

– the Company Strategic Report on pages 4 to 10, and the Directors' Report on pages 11 to 14 include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

The Directors have also separately reviewed and approved the Strategic Report.

On behalf of the Board of Directors

J C S Hillman

Director

6 April 2022

Independent auditor’s report to the members of Scottish Widows Group Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Scottish Widows Group Limited:

- give a true and fair view of the state of the company’s affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards (IAS) in conformity with the requirements of Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the United Kingdom.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Scottish Widows Group Limited (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

Impairment of investment in subsidiaries: The determination of impairment related to investments in subsidiaries involves a number of estimates and judgements, where the carrying value of the investment is not supported by net assets of the relevant subsidiary entity. Key judgements include the growth rates used in forecasting future profits, the ability of subsidiaries to distribute dividends, the determination of applicable discount rates and the determination of business run off discount for certain businesses. Based on our detailed risk assessment, we consider the growth rates used in forecasting future profits and determination of applicable discount rate to be the most material judgements and estimates which form our significant risk. We also consider these judgements to be at risk of management bias, giving rise to a fraud risk.

Together with our business valuation and impairment specialists, we performed the following substantive procedures:

- Obtained an understanding of management's impairment review process and identify and tested the design and implementation of relevant internal controls;
- Assessed the appropriateness of methodologies adopted by management and the models used to execute them;
- Involved internal valuation specialists to challenge assumptions included in the value-in-use calculations, such as discount factor and growth rates;
- Challenged the significant assumptions set by management and used within the model by comparing to corroborative or contradictory evidence, including industry benchmarking where applicable;
- Performed independent calculations of a range of reasonable discount rates through our internal valuation team to compare with management's discount rate;
- Involved internal actuarial specialists to check reasonableness of run off discount assumption used;
- Challenged forecasts by comparing future expectations for cash in/outflows with actual past performance;
- Checked the mathematical accuracy of the value-in-use model by reviewing relevant formulae and data linkages;
- Obtained and reviewed impairment journals for those subsidiaries where there was impairment charged during the year; and
- Assessed the sensitivities and sufficiency of disclosures within the financial statements

Independent auditor's report to the members of Scottish Widows Group Limited (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul R. Stephenson

Paul Stephenson, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

6 April 2022

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Revenue			
Investment income	3	117	274
Income from shares in subsidiary undertakings		310,000	560,000
Total revenue		310,117	560,274
Expenses			
Impairment in value of subsidiary company	9	(107,823)	(58,571)
Operating expenses	4	(15,501)	—
Finance costs	6	(34,962)	(37,279)
Total expenses		(158,286)	(95,850)
Profit before tax		151,831	464,424
Tax credit	7	17,472	16,476
Profit for the year		169,303	480,900
Total comprehensive income for the year		169,303	480,900

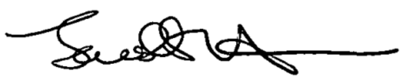
The notes set out on pages 22 to 44 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Investment in subsidiaries	9	10,225,744	10,303,567
Current tax recoverable	8	17,472	16,476
Cash and cash equivalents	10	780,768	65,909
Total assets		11,023,984	10,385,952
EQUITY AND LIABILITIES			
Equity			
Share capital	11	1,560,000	1,005,955
Share premium	11	—	589,439
Other reserves - equity instruments	13	1,100,000	305,000
Capital redemption reserve	12	595,394	—
Retained profits		6,450,195	6,954,357
Total equity		9,705,589	8,854,751
Liabilities			
Subordinated debt	14	960,000	1,159,000
Amounts due to Group undertakings	15	358,335	372,196
Accruals and deferred income		60	—
Other financial liabilities	16	—	5
Total liabilities		1,318,395	1,531,201
Total equity and liabilities		11,023,984	10,385,952

The notes set out on pages 22 to 44 are an integral part of these financial statements.

The financial statements on pages 18 to 44 were approved by the Board on 31 March 2022, and signed on behalf of the Board:



J C S Hillman

Director

6 April 2022

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Net Profit before tax		151,831	464,424
Adjusted for:			
Investment income	3	(117)	(274)
Income from shares in a subsidiary undertaking		(310,000)	(560,000)
Impairment in investment in subsidiary	9	107,823	58,571
Finance costs	6	34,962	37,279
Other non-cash movements		60	—
Net decrease in operating assets and liabilities	16	(13,867)	(6,410)
Taxation received		16,476	17,953
Net cash flows generated from operating activities		(12,832)	11,543
Cash flows from investing activities			
Interest received		117	274
Investment in subsidiary	9	(30,000)	—
Dividends and other income received		310,000	560,000
Net cash flows generated from investing activities		280,117	560,274
Cash flows from financing activities			
Dividends paid	17	(74,113)	(548,921)
Redemption of dated subordinated debt instruments	14	(599,000)	—
Redemption of perpetual subordinated debt instrument	13	(305,000)	—
Redemption of preference shares	11	(599,351)	—
Issuance of new dated subordinated debt instruments	14	400,000	—
Issuance of new perpetual subordinated debt instruments	13	1,100,000	—
Issue of new ordinary shares	11	560,000	—
Finance costs paid	5	(34,962)	(37,279)
Net cash flows used in financing activities		447,574	(586,200)
Net increase / (decrease) in cash and cash equivalents		714,859	(14,383)
Cash and cash equivalents at the beginning of the year		65,909	80,292
Net cash and cash equivalents at the end of the year	10	780,768	65,909

The notes set out on pages 22 to 44 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital	Share Premium	Capital Redemption Reserve	Other Reserves	Retained earnings	Total Equity
		£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2020		1,005,955	589,439	—	305,000	7,022,378	8,922,772
Profit and total comprehensive income for the year		—	—	—	—	480,900	480,900
Dividend	15	—	—	—	—	(548,921)	(548,921)
Balance as at 31 December 2020	**10,11**	1,005,955	589,439	—	305,000	6,954,357	8,854,751
Profit and total comprehensive income for the year		—	—	—	—	169,303	169,303
Issue of new ordinary shares	11	560,000	—	—	—	—	560,000
Redemption of preference shares	11	(5,955)	(589,439)	595,394	—	(595,394)	(595,394)
Penalty on early redemption of preference shares	11	—	—	—	—	(3,957)	(3,957)
Redemption of equity instrument	13	—	—	—	(305,000)	—	(305,000)
Issuance of new perpetual subordinated debt instruments	13	—	—	—	1,100,000	—	1,100,000
Dividend	17					(74,113)	(74,113)
Balance as at 31 December 2021	**10,11**	1,560,000	—	595,394	1,100,000	6,450,196	9,705,590

The notes set out on pages 22 to 44 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies

The accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all periods presented in these financial statements unless stated otherwise, are set out below.

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with the International Accounting Standards (IASs) and in conformity with the requirements of the Companies Act 2006 (IFRSs)

(2) under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies.

The Directors are satisfied that the Company have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

In accordance with IAS 1 “Presentation of Financial Statements”, assets and liabilities in the balance sheet are presented in accordance with management’s estimated order of liquidity. Analysis of the assets and liabilities of the Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The Company is a parent company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

The presentation of the notes to the financial statements relating to corporate actions has changed to allow more detail to be presented given the number of transactions in the year.

Standards and interpretations effective in 2021

The Company has adopted the following amendments to IFRS as at 1 January 2021. Adoption has had no significant impact on the financial position of the Company.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Interest Rate Benchmark Reform – Phase 2 is the second phase of the IASB's IBOR Reform, and addresses issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 21.

(b) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management’s policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies.

On initial recognition, financial assets are classified as measured at amortised cost or fair value through profit or loss, depending on the Company’s business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Company reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Company’s operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

The Company initially recognises loans, debt securities and subordinated liabilities when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Company is committed to purchase or sell an asset.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss are expensed through the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, both in the normal course of business and in the event of default, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(c) Fair value methodology

All assets and liabilities carried at fair value, or for which a fair value measurement is disclosed, are categorised into a 'fair value hierarchy' as follows:

(i) Level 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies (OEICs) and unit trusts traded in active markets, and exchange traded derivatives such as futures.

(ii) Level 2

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar (but not identical) instruments in active markets
- Quoted prices for identical or similar instruments in markets that are not active, where prices are not current, or price quotations vary substantially either over time or among market makers
- Inputs other than quoted prices that are observable for the instrument (for example, interest rates and yield curves observable at commonly quoted intervals and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

Examples of these are securities measured using discounted cash flow models based on market observable swap yields such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability, for example private equity investments held by the Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Examples of Level 3 assets include portfolio of illiquid loans and advances to customers, investments in private debt funds, private equity shares and complex derivatives.

Further analysis of the Company's instruments held at fair value is set out at note 18. The Company's management, through a Fair Value Pricing Committee, review information on the fair value of the Company's financial assets and the sensitivities to these values on a regular basis.

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

(d) Revenue recognition

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within investment income.

Dividend income in respect of the Company's investments in subsidiary undertakings is recognised when the right to receive the dividend is established. All dividends received are recognised through the statement of comprehensive income, within income from shares in subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(e) Expense recognition

Finance costs

Interest expense for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within finance costs.

Operating expenses are recognised in the statement of comprehensive income as they accrue, within operating expenses.

(f) Investment in subsidiaries

The Company owns a number of subsidiaries and has associated companies as set out in note 9. These subsidiaries trade with a view to making a profit, and the risks and rewards of owning these subsidiaries primarily rests with the equity shareholder of the Company. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment.The carrying values are assessed for indicators of impairment at least once in each financial year. Further information on the Company's impairment policy is set out in the Non-financial Assets section of policy (h).

(g) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments).

Holdings in liquidity funds are measured at fair value through profit or loss, with income received recognised in investment income.

The fair value of holdings in liquidity funds is determined as the last published price applicable to the vehicle at the reporting date.

Holdings in liquidity funds are categorised as level 1 in the fair value hierarchy. These assets are valued using quoted prices in active markets for identical assets to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

(h) Impairment

Financial assets

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised costs. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(h) Impairment (continued)

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90 day backstop.

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

Non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

(j) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(k) Subordinated debt

Subordinated debt that meets the definition of a financial liability is initially recognised at fair value and subsequently measured at amortised cost. Extension features that are not closely related to the underlying liability are accounted for as separate instruments.

Subordinated debt that does not include contractual obligations to deliver cash or other assets to another entity is classified as equity and is recognised in Equity Instruments as described in note 1(n). Subordinated debt, which includes features of both equity and a financial liability, is classified as a compound financial instrument, as described in note 1(o).

(l) Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

(m) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Accounting policies (continued)

(n) Equity instruments

Financial instruments, other than ordinary shares, that do not include contractual obligations to deliver cash or other assets to another entity are classified as equity and are recognised in Equity Instruments at the value of the net proceeds received from issuing the instrument.

(o) Accruals and deferred income

Accruals and deferred income are provided and recognised in the statement of comprehensive income in order to match costs or deferred income to the period in which they were incurred or earned.

(p) Contingent liability

A contingent liability is disclosed when identified as a possible cost to the Company. The value of the contingent liability is estimated based upon the latest information available at time of reporting.

2. Critical accounting judgments and estimates

The Company's management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. *Key sources of estimation uncertainty*

The Company uses estimates in the assessment of investment in subsidiaries for possible impairment. These include estimates used for value in use calculations relating to discount factors and growth assumptions. Further details of estimates used appear in note 9.

b. Critical judgements

The Company apply judgement to the accounting treatment of debt instruments. This judgement is based upon the details and characteristics of each individual instrument, including whether the instrument is dated or undated, if the debt can be converted to equity at certain levels of solvency ratio and if the company has the option to cancel coupon payments.

The recoverable amount of investments in subsidiaries requires judgement with regard to future cash flows and risks associated with those cash flows, together with the discount rate applied. In the year the Company developed a new tool to allow the Directors to assess impairment more easily in line with IAS36.

3. Investment income

	2021	**2020**
	£'000	**£'000**
Interest receivable on investments in a liquidity fund	117	274
Total	117	274

4. Operating expenses

	2021	**2020**
	£'000	**£'000**
Operating expenses	15,501	—
Total	15,501	—

Operating expenses includes a balance of £14,024,000 of pre-acquisition costs in relation to the acquisition of the Embark Group. The acquisition completed on 31 January 2022.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

5. Auditors' remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	15	14
Fees payable to the Company's auditors and its associates for other services:		
Fees in relation to Solvency II work	—	58
Fees in relation to debt restructure work	25	—
Total fees payable	40	72

Audit fees for 2021 and 2020 were paid by another Company within Lloyds Banking Group and were not recharged to the Company.

6. Finance costs

	2021 £'000	2020 £'000
Interest on dated subordinated debt	22,082	23,504
Interest on loans from subsidiary undertakings	12,880	13,775
Total	34,962	37,279

7. Tax credit

(a) Current year tax charge

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax	17,472	16,476
Total current tax	17,472	16,476

Corporation tax is calculated at a rate of 19.00 per cent (2020: 19.00 per cent) of the taxable profit for the year.

(b) Reconciliation of tax credit

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2021 £'000	2020 £'000
Profit before tax	151,831	464,424
Tax charged thereon at UK Corporation tax rate of 19% (2020: 19%)	(28,848)	(88,241)
Effects of:		
Income from shares in subsidiary undertakings	58,900	106,400
Dividends on undated subordinated debt	9,634	9,445
Disallowable expenses	(1,728)	—
Impairment of holding in subsidiary company	(20,486)	(11,128)
Tax credit on profit on ordinary activities	17,472	16,476

8. Tax assets and liabilities

	2021 £'000	2020 £'000
Current tax assets	17,472	16,476
Total tax assets	17,472	16,476

The current tax receivable relates to group relief for corporation tax which is receivable from other companies within Lloyds Banking Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries

	2021 £'000	2020 £'000
At 1 January	10,303,567	10,362,138
Impairment of investment in subsidiaries	(107,823)	(58,571)
Investment in subsidiary	30,000	—
At 31 December	10,225,744	10,303,567

On 30 June 2021 the Company purchased at par an additional 30,000,000 ordinary shares in Lloyds Bank General Insurance Holdings Limited, an existing subsidiary of the Company.

An impairment of £107.8 million (2020: £58.6 million) has been recognised during 2021 in respect of the investment in Scottish Widows Financial Services Holdings, leaving a carrying value of £193.0 million (2020: £300.8 million).

In respect of the carrying value of Scottish Widows Limited (SWL), the Directors have considered the available free surplus on a Solvency II basis and expected value from future business to satisfy themselves that the carrying value is appropriate and does not require impairment.

The key components of this evaluation comprise future business levels and discount rate, which are based on a best estimate from future business plans and adjusted for risk. The analysis is therefore sensitive to these assumptions and actual future performance could differ from these assumptions both positively and negatively. The Directors will continue to assess the value of the subsidiary companies and impair these if deemed necessary.

Significant Estimate: Key assumptions used for value-in-use calculations

A review of the carrying value of the subsidiary investments to assess indications of impairment is performed on an annual basis.

With the exception of SWL, the recoverable amount for 2020 and 2021 have both been calculated on a value in use basis, using the dividend discount method of valuation. The applicable pre-tax discount factor used for 2021 is 8.70 per cent (2020: 8.74 per cent). This has been applied to distributable profits and forecast dividends in line with the approved business plan. Growth assumptions and forecasts are also key assumptions utilised in production of these estimates of distributable profits and forecast dividends. Future capacity of HBOS Investment Fund Managers Limited to pay dividends has been determined based on its anticipated profitability as assets under management run off.

For the assessment of SWL, a discounted cash flow model is used with the best-estimate of cash flows derived from the Solvency II reporting framework (both current and projected cashflows). Adjustments for risk are made to reflect a view of distributable surplus. Consistent with the other subsidiary investments, growth assumptions and the discount factor used are key assumptions. A 1% increase in the pre-tax discount factor would result in a £764 million change to value-in-use and a 1% reduction in the growth rate applied would result in a £731 million change in value-in-use.

The impairment in Scottish Widows Financial Services Holdings arose following an impairment of the carrying value in Halifax Financial Services (Holdings) Limited of the investment in its subsidiary, HBOS Investment Fund Managers Limited (HIFML). This occurred primarily as a result of changes in the underlying forecast assumptions in its value in use, principally reductions in anticipated profitability in the plan and subsequent periods. Scottish Widows Financial Services Holdings is the parent of HBOS Financial Services (Holdings) Limited which is the parent of HBOS Investment Fund Managers Limited.

Significant Estimate: Impact of possible changes in key assumptions

If the discount rate applied to the cash flow projections had been 1 per cent higher (9.70 per cent instead of 8.70 per cent), the impairment charge would have been £119.5 million, an increase of £11.7 million. If the discount rate had been 1 per cent lower (7.70 per cent instead of 8.70 per cent), the impairment charge would have been £94.6 million, a decrease of £13.2 million. Under these scenarios no other impairments in subsidiaries would be required.

Subsidiaries

All entities detailed on the following page are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, investment management activities or services in connection therewith, unless otherwise stated. Following are particulars of the Company's subsidiaries:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries (continued)

Celsius European Lux 2 SARL	(3)	SCI de l'Horloge	(13)
Clerical Medical Finance plc	(2)	SCI Rambeateau CFF	(13)
Clerical Medical Financial Services Limited	(2)	Scottish Widows Administration Services Limited	(14)
Clerical Medical International Holdings B.V.	(17)	Scottish Widows Administration Services (Nominees) Limited	(15)
Clerical Medical Investment Fund Managers Limited	(12)	Scottish Widows Auto Enrolment Services Limited	(14)
Clerical Medical Non Sterling Property Company SARL	(3)	Scottish Widows Europe SA	(4)
CM Venture Investments Limited	(7)	Scottish Widows Financial Services Holdings^	(1)
Dalkeith Corporation LLC	(8)	Scottish Widows Fund and Life Assurance Society	(15)
France Industrial Premises Holding	(10)	Scottish Widows Industrial Properties Europe BV	(16)
General Reversionary and Investment Company (80%)	(2)	Scottish Widows Limited^	(14)
Halifax Financial Brokers Limited	(12)	Scottish Widows Property Management Limited*	(5)
Halifax Financial Services (Holdings) Limited	(12)	Scottish Widows Trustees Limited	(15)
Halifax Financial Services Limited	(12)	Scottish Widows Unit Funds Limited	(1)
Halifax General Insurance Services Limited	(12)	Scottish Widows Unit Trust Managers Limited	(14)
Halifax Investment Services Limited*	(18)	St Andrew's Group Limited	(2)
Halifax Life Limited	(12)	St Andrew's Insurance plc	(2)
HBOS Financial Services Limited	(2)	St Andrew's Life Assurance plc	(2)
HBOS International Financial Services Holdings Limited	(2)	Saint Michel Holding Company No 1	(10)
HBOS Investment Fund Managers Limited	(12)	Saint Michel Investment Property	(10)
Legacy Renewal Company Limited	(6)	Saint Witz II Holding Company No 1	(10)
Lloyds Bank General Insurance Holdings Limited^	(14)	Saint Witz II Investment Property	(10)
Lloyds Bank General Insurance Limited	(14)	SW Funding plc	(1)
Lloyds Bank Insurance Services Limited	(14)	SW No 1 Limited	(1)
Pensions Management (S.W.F.) Limited	(15)	Thistle Investments (AMC) Limited	(11)
SARL HIRAM	(13)	Thistle Investments (ERM) Limited	(11)
SAS Compagnie Fonciere de France	(13)	Waverley Fund II Investor LLC	(8)
SCI Astoria Invest	(13)	Waverley Fund III Investor LLC	(8)

*** In liquidation**

^ Shares held directly by the company

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries (continued)

The investments in subsidiaries included above are generally recoverable more than one year after the reporting date.

The ability of regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by regulatory solvency requirements as well as Companies Act distributable reserves requirements. The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserves requirements.

Registered office addresses

(1) 69 Morrison Street, Edinburgh, Midlothian, EH3 8YF
(2) 33 Old Broad Street, London, EC2N 1HZ
(3) 20 Rue de Poste, L-2346, Luxembourg
(4) 1, Avenue du Bois, L-1251, Luxembourg
(5) Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
(6) Bank of Scotland, The Mound, Edinburgh, EH1 1YZ
(7) RL360 House, Cooil Road, Douglas, Isle of Man, IM2 2SP
(8) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
(9) 4th Floor 4 Victoria Street, St. Albans, Hertfordshire, AL1 3TF
(10) SAB Formalities, 23 Rue de Roule, Paris, 75001, France
(11) 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX
(12) Trinity Road, Halifax, West Yorkshire, HX1 2RG
(13) 8 Avenue Hoche, 75008, Paris, France
(14) 25 Gresham Street, London, EC2V 7HN
(15) Port Hamilton, 69 Morrison Street, Edinburgh, EH3 8BW
(16) Hoogoorddreef, 151101BA, Amsterdam, Netherlands
(17) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
(18) 1 More London Place, London, SE1 2AF

The table overleaf lists collective investment vehicles and limited partnerships which are considered to be related undertakings due to the Group holding of 20 per cent or more. The basis to determine whether these investment vehicles are consolidated, in part through the Group's long-term funds, is set out in policy 1(b). The carrying value of the investment vehicles which are not consolidated is presented in investments at fair value through profit and loss within the Company's subsidiary, Scottish Widows Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries (continued)

Name Of Umbrella And Undertaking	% Held
Aberdeen Liquidity Fund (i)	
Aberdeen Liquidity Fund (Lux) – Ultra Short Duration Sterling Fund	27.18%
Aberdeen Standard OEIC I (ii)	
Aberdeen European Property Share Fund	35.86%
Aberdeen Sterling Bond Fund	71.08%
Aberdeen Standard OEIC IV (ii)	
Aberdeen Global Corporate Bond Tracker Fund	96.30%
ASI UK Equity Index Managed Fund	84.49%
Aberdeen Standard OEIC VI (ii)	
Aberdeen Global Emerging Markets Quantitative Equity Fund	67.24%
ACS Pooled Property (iii)	
Scottish Widows Pooled Property ACS Fund	100.00%
Scottish Widows Pooled Property ACS Fund 2	100.00%
AgFe UK Real Estate Senior Debt Fund LP (iv)	78.00%
Artemis Institutional Funds (v)	
Artemis Institutional Global Capital Fund	24.20%
BlackRock Authorised Contractual Scheme I (vii)	
ACS World Multifactor Equity Tracker Fund	47.84%
Blackrock ACS 60:40 Global Equity Tracker Fund	32.91%
BlackRock ACS Climate Transition World Equity Fund	97.02%
BlackRock ACS Japan Equity Tracker Fund	68.16%
BlackRock ACS UK Equity Tracker Fund	62.17%
BlackRock ACS US Equity Tracker Fund	79.80%
Blackrock ACS World ex UK Equity Tracker Fund	23.59%
BlackRock Collective Investment Funds (vii)	
iShares Corporate Bond Index Fund (UK)	20.33%
iShares Global Property Securities Equity Index Fund	45.86%
BlackRock Fixed Income Dublin Funds (viii)	
iShares Emerging Markets Local Government Bond Index Fund (IE)	62.38%
iShares Emerging Markets Government Bond Index Fund (IE)	80.86%
BNY Mellon Investment Funds (ix)	
BNY Mellon Global Balanced Fund	20.94%
BNY Mellon Global Equity Fund	26.03%
BNY Mellon US Opportunities Fund	45.35%
Insight Global Absolute Return Fund	78.92%
Insight Global Multi-Strategy Fund	42.94%
Newton Multi-Asset Growth Fund	25.15%
Newton UK Income Fund	27.46%
Newton UK Opportunities Fund	58.74%
Fidelity Investment Funds 2 (x)	
Fidelity UK Opportunities Fund	22.13%

Name Of Umbrella And Undertaking	% Held
HBOS International Investment Funds ICVC (xi)	
North American Fund	95.16%
Far Eastern Fund	80.44%
European Fund	93.83%
International Growth Fund	55.32%
Japanese Fund	93.75%
HBOS Property Investment Funds ICVC (xi)	
UK Property Fund	51.33%
HBOS Specialised Investment Funds ICVC (xi)	
Cautious Managed Fund	50.27%
Ethical Fund	82.22%
Fund Of Investment Trusts	39.93%
Smaller Companies Fund	63.89%
Special Situations Fund	49.92%
HBOS UK Investment Funds ICVC (xi)	
UK Equity Income Fund	58.99%
UK Growth Fund	61.35%
UK FTSE All-Share Index Tracking Fund	60.18%
HLE Active Managed Portfolio Ausgewogen (xii)	59.46%
HLE Active Managed Portfolio Dynamisch (xii)	44.89%
HLE Active Managed Portfolio Konservativ (xii)	46.08%
Investment Portfolio ICVC (xiii)	
IPS Income Portfolio	35.81%
IPS Growth Portfolio	39.57%
Lazard Developing Markets Fund (xiv)	96.70%
Legg Mason Western Asset Multi-Asset Credit Fund (xv)	28.67%
MGI Funds plc (xvi)	
Mercer Diversified Retirement Fund	71.81%
Mercer Multi Asset Defensive Fund	40.36%
Mercer Multi Asset Growth Fund	65.67%
Mercer Multi Asset High Growth Fund	77.68%
Mercer Multi Asset Moderate Growth Fund	73.51%
Mercer Passive Sustainable Global Equity Feeder Fund	84.70%
Multi-Manager ICVC (xiii)	
Multi Manager UK Equity Income Fund	39.01%
Nordea 1 – GBP Diversified Return Fund (xvii)	23.33%
Pan European Urban Retail Fund (xviii)	22.00%
Pemberton European Mid-Market Debt Fund II (xix)	100.00%
Retail Authorised Unit Trusts (vii)	
Blackrock Balanced Growth Portfolio Fund	38.02%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries (continued)

Name Of Umbrella And Undertaking	% Held
Schroder Funds ICAV (xx)	
Schroder Sterling Liquidity Fund	89.19%
Schroder Sterling Short Duration Bond Fund	89.73%
Schroder International Selection Fund (xxi)	
Multi Asset Total Return	28.85%
Emerging Market Bond Fund	71.54%
Sustainable Emerging Markets Synergy	100.00%
Schroder Matching Plus Bespoke Investment Fund 10 (xxi)	100.00%
Scottish Widows Income And Growth Funds ICVC (iii)	
Balanced Growth Fund	30.46%
Progressive Growth Fund	46.22%
UK Index Linked Gilt Fund	100.00%
Corporate Bond PPF Fund	100.00%
SW Corporate Bond Tracker	100.00%
Scottish Widows GTAA 1	84.01%
Corporate Bond 1 Fund	88.79%
Adventurous Growth Fund	44.23%
Scottish Widows Investment Solutions Funds ICVC (iii)	
European (Ex UK) Equity Fund	95.17%
Asia Pacific (Ex Japan) Equity Fund	98.61%
Japan Equities Fund	93.70%
US Equities Fund	89.30%
Fundamental Index UK Equity Fund	89.38%
Fundamental Index Global Equity Fund	94.51%
Fundamental Index Emerging Markets Equity Fund	90.94%
Fundamental Low Volatility Index Global Equity Fund	97.45%
Fundamental Low Volatility Index Emerging Markets Equity Fund	93.16%
Fundamental Low Volatility Index UK Equity Fund	86.07%
Scottish Widows High Income Bond Fund	49.91%
Scottish Widows International Bond Fund	69.50%
Scottish Widows Corporate Bond Fund	69.72%
Scottish Widows Gilt Fund	97.48%
Scottish Widows Strategic Income Fund	64.11%
Scottish Widows Managed Investment Funds ICVC (iii)	
International Equity Tracker Fund	63.96%
Balanced Growth Portfolio	23.68%
Strategic Growth Portfolio	44.26%
Cash Fund	99.50%
Scottish Widows Overseas Growth Investment Funds ICVC (iii)	
Global Growth Fund	57.89%
European Growth Fund	86.60%
Global Select Growth Fund	44.80%
American Growth Fund	80.45%
Pacific Growth Fund	69.01%
Japan Growth Fund	92.48%
Scottish Widows Tracker And Specialist Investment Funds ICVC (iii)	
UK All Share Tracker Fund	90.60%
UK Tracker Fund	45.47%
UK Fixed Interest Tracker Fund	95.69%
Emerging Markets Fund	82.09%
UK Index-Linked Tracker Fund	66.39%
Scottish Widows UK And Income Investment Funds ICVC (iii)	
UK Growth Fund	59.63%
UK Equity Income Fund	23.63%
Environmental Investor Fund	78.84%
Ethical Fund	83.07%
State Street Global Advisors (xxii)	
State Street AUT Europe Ex UK Screened (ex Controversies and CW) Index Equity Fund	96.48%
State Street AUT Asia Pacific Ex-Japan Screened(ex Controversies and CW) Index Equity Fund	96.72%
State Street AUT Emerging Market Screened (ex Controversies and CW) Index Equity Fund	100.00%
The TM Levitas Funds (xxiii)	
TM Levitas A Fund	59.91%
TM Levitas B Fund	50.51%
UBS Global Optimal Fund (xxiv)	36.50%
Universe, The CMI Global Network (vi)	
CMIG GA 70 Flexible	100.00%
CMIG GA 80 Flexible	100.00%
CMIG GA 90 Flexible	100.00%
European Enhanced Equity	100.00%
CMIG Access 80%	100.00%
Continental Euro Equity	97.30%
UK Equity	83.60%
US Enhanced Equity	86.07%
Japan Enhanced Equity	92.70%
Pacific Enhanced Basin	77.23%
Euro Bond	61.64%
US Bond	94.64%
US Currency Reserve	64.49%
Euro Currency Reserve	98.86%
US Tracker	36.60%
CMIG Focus Euro Bond	99.91%
Euro Cautious	88.44%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. Investment in subsidiaries (continued)

Principle Place of Business:

(i) 35a, Avenue John F. Kennedy, L-1855, Luxembourg
(ii) 1 Bread Street, Bow Bells House, London, EC4M 9HH
(iii) 69 Morrison Street, Edinburgh, EH3 8BW
(iv) 3rd Floor South, 55 Baker Street, London, W1U 8EW
(v) 57 St James's Street, London, SW1A 1LD
(vi) 106, Route D'arlon, L-8210 Mamer, Luxembourg
(vii) 12 Throgmorton Avenue, London, EC2N 2DL
(viii) 79 Sir John Rogerson's Quay, Dublin 2, Ireland
(ix) 160 Queen Victoria Street, London, EC4V 4LA
(x) Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP
(xi) Trinity Road, Halifax, West Yorkshire, HX1 2RG
(xii) 2, Boulevard Konrad Adenauer, L-1115, Luxembourg
(xiii) 25 Gresham Street, London, EC2V 7HN
(xiv) 50 Stratton Street, London, W1J 8LL
(xv) Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland
(xvi) 70 Sir John Rogerson's Quay, Dublin 2, Ireland
(xvii) Nordea 1, SICAV, 562, Rue de Neudorf, L-2220, Luxembourg
(xviii) Jackson House, 18 Saville Row, London, W1S 3PW
(xix) 2 - 4, Rue Eugène Ruppert L-2453, Luxembourg
(xx) Georges Court, 54-62 Townsend Street, Dublin 2, D02 R156
(xxi) 5, Rue Höhenhof, L-1736, Senningerberg, Luxembourg
(xxii) 20 Churchill Place, Canary Wharf, London, E14 5HJ
(xxiii) Exchange Building, St. John's Street, Chichester, West Sussex, PO19 1UP
(xxiv) 21 Lombard Street, London, EC3V 9AH

10. Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows include the following:

	2021 £'000	2020 £'000
Investment in a liquidity fund	780,768	65,909
Total	780,768	65,909

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. Share capital and share premium

Authorised, Allotted, called up and fully paid share capital:	2021 Ordinary shares £'000	2021 Class A preference shares £'000	2021 Class B ordinary shares £'000	2020 Ordinary shares £'000	2020 Class A preference shares £'000	2020 Class B ordinary shares £'000
Balance at 1 January	1,000,000	5,954	1	1,000,000	5,954	1
Redemption of shares May 2021		(5,954)	(1)	—	—	—
Issuance of new shares November 2021	560,000		—	—	—	—
Balance as at 31 December	1,560,000	—	—	1,000,000	5,954	1

Share Premium	2021 £'000	2020 £'000
Balance at 1 January	589,439	589,439
Redemption of shares May 2021	(589,439)	—
Balance as at 31 December	—	589,439

Ordinary shares

On 1 July 2011, as part of a legal entity restructuring project, the Company issued 54,168,285,771 Class B ordinary shares.

In May 2013 there was a reduction of class B Ordinary Shares held by HBOS plc to 7,939,393,959 shares. The remaining shares were redeemed by the Company on 18 May 2021 and an amount of £794 was transferred from share capital to a capital redemption reserve leaving a balance of nil as at the reporting date.

On 4 November 2021, the Company issued an additional 56,000,000,000 ordinary shares at face value. All of these were purchased by the existing shareholder and parent company, Lloyds Banking Group plc.

Preference shares

On 1 July 2011, as part of the same legal entity restructuring project, the Company issued 595,393,273 Class A preference shares.

The Class A preference shares were issued at an issue price of £1.00 per share, at a premium of £0.99 on their nominal value of £0.01 per share, giving rise to a share premium of £589,439,000. The shares carried floating rate, non-cumulative dividends which accrued at a rate of 7.75 per cent plus 3 month LIBOR for every 12 month period from the date of issue, and which were payable at the discretion of the Company. The Class A preference shares were redeemable at the option of the Company for par plus any accrued dividends at scheduled dates. The Company exercised the option to redeem the preference shares on 18 May 2021 and an amount of £5,954,000 was transferred to a capital redemption reserve. As the shares were redeemed using retained profits, an amount of £589,439,000 was transferred from share premium to a capital redemption reserve. leaving a balance of nil at the reporting date. An early redemption fee of £3,957,000 was also included giving a total redemption figure of £599,351,000.

12. Capital Redemption Reserve

	2021 £'000	2020 £'000
Balance as at 1 January	—	—
Redemption of class A preference shares	5,954	—
Redemption of class A preference shares - share premium	589,439	—
Redemption of class B ordinary shares	1	—
Balance as at 31 December	595,394	—

On 18 May 2021 the Company exercised an option to redeem class A preference shares and class B ordinary shares, creating a capital redemption reserve of £595,394,000. Further details appear in note 11.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

13. Other Reserves - Equity Instruments

	2021 £'000	2020 £'000
Balance as at 1 January	305,000	305,000
Redemption of subordinated perpetual debt instruments	(305,000)	—
Issuance of new subordinated perpetual debt instruments	1,100,000	—
Balance as at 31 December	1,100,000	305,000

The subordinated debt instruments are perpetual and pay periodic interest payments at the discretion of the Company and accordingly are classified as equity instruments. Where an interest payment is not made it would accumulate and be payable if the Company chose to redeem the securities or to make the interest payment. No interest is accrued on a deferred interest amount.

On 18 May 2021 the Company issued four new Tier One (Solvency II Own funds) perpetual debt instruments with interest rates and call dates as below;

Amount	Interest rate	Next call date
£300 million	SONIA + 3.70%	November 2026
£300 million	SONIA + 3.70%	November 2028
£250 million	SONIA + 4.06%	November 2027
£250 million	SONIA + 4.21%	November 2029

On 21 December 2021, there was a call option exercised on the existing £305 million subordinated perpetual debt instrument whereby it was fully redeemed.

14. Subordinated debt

The carrying value shown in the balance sheet is as follows:

	2021		2020	
	Dated Subordinated debt	Undated Subordinated debt - liability component	Dated Subordinated debt	Undated Subordinated debt - liability component
	£'000	£'000	£'000	£'000
Balance at 1 January	635,000	524,000	635,000	524,000
Repurchase of subordinated debt May 2021	(75,000)	(524,000)	—	—
Issue dated subordinated debt May 2021	100,000	—	—	—
Issue dated subordinated debt December 2021	300,000	—	—	—
Total	960,000	—	635,000	524,000

Of the above total, £960 million (2020: £1,159 million) is expected to be settled more than one-year after the reporting date. Details of each subordinated debt instrument are set out below.

Dated subordinated debt

*A*s part of the legal entity restructuring project on 1 July 2011, the Company issued £475 million of dated subordinated debt comprising floating rate subordinated notes due 2041, with a maturity date of 30 years from the date of issue. The coupons were cumulative, at a floating rate of 3 month LIBOR plus 5 per cent and were deferrable at the option of the Company until maturity. In May 2013, £400 million of dated subordinated debt with a maturity date of 2041 was repurchased by the Company, leaving £75 million outstanding. On 18 May 2021, the Company repurchased the remaining £75m leaving an outstanding balance of nil at the reporting date.

The Company issued £560 million of 10 year dated subordinated debt to Lloyds Banking Group plc on 15 June 2015, with a callable option in June 2025. The loan carried interest at the rate of 3 month LIBOR plus 3.15 per cent, payable quarterly, but due to the planned discontinuation of LIBOR, the interest was amended by deed of variation on 13 September 2021 to SONIA +3.25%. This instrument is classed as Tier Two (Solvency II Own funds).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. Subordinated debt (continued)

On 18 May 2021 the Company issued a new £100 million 10 year dated Tier Two (Solvency II Own funds) subordinated debt security to Lloyds Banking Group plc, carrying an interest rate of SONIA +2.01% payable quarterly. This security has a callable option in November 2026.

On 8 December 2021 the Company issued a further £300 million 10 year dated Tier Two (Solvency II Own funds) subordinated debt security to Lloyds Banking Group plc, carrying an interest rate of SONIA +1.98% payable quarterly. This security has a callable option in June 2027.

The dated subordinated debt is redeemable at par value plus accrued coupons at the option of the Company, subject to certain conditions, after 10 years from the date of issue at scheduled dates, and at other non-scheduled dates in the event of a change in law the effect of which is that the dated subordinated debt no longer qualifies for inclusion in the Group's regulatory capital on the same basis as it did prior to such change in the law.

If when the debt is to be redeemed the Group regulatory capital is in breach of a specified regulatory capital solvency level, the Company will be required to defer repayment of the principal amount of the dated subordinated debt until the Prudential Regulatory Authority (or any successor regulatory authority) approves payment. This extension feature is not closely related to the dated subordinated debt; however, the value of the feature is deemed to be negligible. The undated subordinated debt - liability component is the liability of a compound financial instrument.

Undated subordinated debt

Also as part of the legal entity restructuring on 1 July 2011, the Company issued undated subordinated debt of £1,014 million. On 17 December 2018, following approval from the PRA, the Company redeemed £490 million of floating rate subordinated perpetual notes issued to Lloyds Bank plc. The remaining £524 million of the subordinated securities were subject to repurchase by the Company in the event of the Solvency II Group headed by the Company breaching a specified regulatory capital solvency level. This repurchase feature met the definition of a financial liability and as a result the subordinated debt that is subject to the repurchase feature is a compound instrument. The repurchase feature was recognised as a liability component and was shown in liabilities as subordinated debt. The subordinated liability component was measured at the value of the repurchase amount. On 18 May 2021, the Company decided of its own volition to exercise an option to repurchase the remaining £524m, leaving an outstanding balance of nil at the reporting date.

The fair values of the subordinated debt are as follows:

	2021		2020	
	£'000	£'000	£'000	£'000
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Dated subordinated debt	960,000	955,780	635,000	632,490
Undated subordinated debt - liability component	—	—	524,000	528,130
Total	960,000	955,780	1,159,000	1,160,620

The fair value of undated subordinated debt has been calculated using published bid prices at the reporting date. The fair value of dated subordinated debt has been assessed by management with reference to published prices.

15. Amounts due to Group undertakings

	2021 £'000	2020 £'000
Loans from subsidiary undertakings	351,789	347,471
Amounts due to other associated companies	4,531	—
Accrued dividends	—	22,944
Accrued interest payable	2,014	1,781
Total	358,334	372,196

Of the above total, £336.2 million (2020: £334.7 million) is expected to be settled more than one-year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. Net (increase)/decrease in operating assets and liabilities

	2021 £'000	2020 £'000
Net (decrease) in operating liabilities		
Amounts due to Group undertakings	(13,861)	(6,415)
Other financial liabilities	(5)	5
Net (decrease) in operating liabilities	(13,866)	(6,410)
Net (decrease) in operating assets and liabilities	(13,866)	(6,410)

17. Dividends paid

	2021 £'000	2020 £'000
Dividends on class A ordinary shares	—	435,000
Dividends on class B ordinary shares	5,982	15,720
Dividends on class A preference shares	17,428	48,489
Dividends on undated subordinated debt	50,703	49,712
Total dividends paid	74,113	548,921

The dividends paid in 2021 amounted to a total of nil pence per class A ordinary share, 0.0753 pence per class B ordinary share and 2.927 pence per class A preference share (2020: 0.435 pence per class A ordinary share, 0.1980 pence per class B ordinary share and 8.144 pence per class A preference).

The dividends per share are lower in 2021 on the class B shares and class A preference shares as both share classes were repurchased by the Company on 18 May 2021. No dividends were paid in the year to the class A ordinary shareholder.

Dividends on subordinated debt are in relation to the equity instruments as detailed in note 12.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Risk management

The principal activity of the Company is that of holding company.

This note summarises the financial risks and the way in which they are managed.

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of financial risk are credit, liquidity and market risk.

The Company manages these risks in a numbers of ways, including risk appetite assessment and monitoring of capital resource requirements.

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The sensitivity analyses given throughout this note are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated, for example changes in interest rates and changes in market values. The sensitivity analysis presented also represents management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

(1) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market rates, in particular equity, credit default spreads, interest rates and inflation in Insurance business.

The main investments of the Company are the holding of subsidiary companies, which are set out in Note 8 and the risks associated with investments in subsidiaries are covered further in paragraph (6) below. Holdings of individual assets are essentially interest bearing, and are covered further in paragraph (5) below.

Investments in liquidity fund are categorised as level 1 in the fair value hierarchy.

(2) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve.

Interest rate risk arises in respect of investments in a liquidity fund, dividends on undated preference shares, interest on the intercompany loans and coupons on dated subordinated debt which are described in note 14. None of the other financial assets or financial liabilities of the Company are interest-bearing.

The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets, will fluctuate because of changes in market interest rates at the reporting date.

	Impact on profit after tax and equity for the year	
	2021	**2020**
	£'000	**£'000**
100 basis points (2020: 100 basis points) increase in yield curves	13,118	9,825
100 basis points (2020: 100 basis points) decrease in yield curves	(13,118)	(9,825)

(3) Credit risk

The risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

At the year end, the Company held financial assets of £780,768,000 (2020: £65,909,000) which were in investments in a liquidity fund with a credit risk rating of AAA (2020: AAA) using Standard & Poor's rating or equivalent. These assets are classified as Level 1 within the fair value hierarchy (2020: Level 1).

Credit risk in respect of above balances is not considered to be significant. There were no past due or impaired assets at 31 December 2021 or 31 December 2020. No terms in respect of financial assets had been renegotiated at 31 December 2021 or 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Risk management (continued)

(4) Capital Risk

Capital risk is defined as the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Company. The risk that:

- one of its separately regulated subsidiaries, has insufficient capital to meet its regulatory capital requirements;
- the Company has insufficient capital to provide a stable resource to absorb all losses up to a confidence level defined in the risk appetite;
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type or distribution; and/or
- the capital structure is inefficient.

The business of several of the Company's subsidiaries is regulated by the PRA and the FCA. The PRA rules, which incorporate all Solvency II requirements, specify the minimum amount of capital that must be held by the regulated companies within the Group in addition to their insurance liabilities. Under the Solvency II rules, each insurance company must hold assets in excess of this minimum amount, which is derived from an economic capital assessment undertaken by each regulated Company and the quality of capital held must also satisfy Solvency II tiering rules. This is reviewed on a quarterly basis by the PRA.

The Solvency II minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Company’s objectives when managing capital are to have sufficient capital to safeguard the Company’s ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders.

The capital management strategy is such that the integrated insurance business (comprising Lloyds Banking Group plc and its subsidiaries, including the Company) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand a one in ten year stress event without breaching the capital requirements. At Lloyds Banking Group level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to Lloyds Banking Group.

The Company’s capital comprises all components of equity, movements in which are set out in the statement of changes in equity and includes subordinated debt (note 14).

(5) Liquidity risk

Liquidity risk is defined as the risk that the Company does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

Liquidity risk has been analysed as arising from the settlement of intercompany balances.

In order to measure liquidity risk exposure the Company’s liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company has sufficient liquidity to meet its obligations and remains within approved risk appetite. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one year stressed outflows are required to be covered by primary and secondary liquid assets. The Company holds primary liquid assets in the form of cash.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider Lloyds Banking Group Funding and Liquidity Policy.

The following tables indicate the timing of the contractual cash flows arising from the Company’s financial liabilities, as required by IFRS 7. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is obliged to pay, The table includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. Risk management (continued)

(5) Liquidity risk (continued)

As at 31 December 2021		Contractual cash flows					
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dated subordinated debt	960,000	—	—	7,380	22,140	118,081	960,000
Undated subordinated debt - liability component	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Amounts owed to Group undertakings	358,334	—	6,545	3,894	11,683	359,578	—
Total	1,318,334	—	6,545	11,274	33,823	477,659	960,000

As at 31 December 2020		Contractual cash flows					
Liabilities	**Carrying amount**	**No stated maturity**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dated subordinated debt	635,000	—	—	4,448	16,172	86,249	635,000
Undated subordinated debt - liability component	524,000	524,000	—	—	—	—	—
Other financial liabilities	5	5	—	—	—	—	—
Amounts owed to Group undertakings	372,196	—	24,725	3,455	10,364	369,352	—
Total	1,531,201	524,005	24,725	7,903	26,536	455,601	635,000

Interest of £45,098,000 (2020: £34,439,000) per annum which is payable in respect of dated subordinated debt and non-current amounts owed to group undertakings for as long as they remain in issue is not included beyond five years.

(6) Risk associated with investment in subsidiaries

The Company owns various subsidiary undertakings and as mentioned in accounting policy note 1 (f), the carrying values of these are assessed for reasonableness at least once in each financial year. Any impairment in the value of these investments could result in a significant financial exposure of the Company, although the impairment would have to be significant itself for this risk to crystallise. The underlying activity in the subsidiary undertakings is regularly monitored and any implications on the financial position of the Company assessed. All subsidiaries of the Company are managed in accordance with Lloyds Banking Group risk policies to mitigate against any unforeseen circumstances.

As a holding company, the Company may be called upon to support subsidiary companies with additional capital in exceptional circumstances. Capital requirements are assessed on a regular basis by a specialist team so any requirements can be planned in advance. The risk to the Company is low as if necessary the Company can call upon its immediate parent as required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. Related party transactions

(a) Ultimate parent and shareholding

The ultimate and immediate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest and smallest group to consolidate these financial statements. Copies of the consolidated Annual Report and Financial Statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

(b) Transactions and balances with related parties

Transactions with other Lloyds Banking Group companies

The Company has entered into transactions with related parties in the normal course of business during the year.

	2021			
	Income during year £'000	Expenses during year £'000	Payable at year end £'000	Receivable at year end £'000
Relationship				
Parent	—	96,196	962,014	—
Subsidiary	310,000	12,703	351,788	—
Other related parties	—	1,297	4,560	—

	2020			
	Income during year £'000	Expenses during year £'000	Payable at year end £'000	Receivable at year end £'000
Relationship				
Parent	—	541,541	652,401	—
Subsidiary	560,000	13,628	347,471	—
Other related parties	—	30,884	531,324	—

The above balances are unsecured in nature and are expected to be settled in cash.

Parent undertaking transactions relate to dividends paid to the Company's immediate parent. Transactions with other related parties (which including Subsidiary, Associates, Joint Ventures and Other categories above) are primarily in relation to financing (through capital and subordinated debt), loan funding and receipt of dividends.

(c) Transactions between the Company and entity employing key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and Insurance and Wealth Executive Committee (IWEC) members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity and its subsidiaries (both direct and indirect) are as follows:

Key management compensation:

	2021 £'000	2020 £'000
Short-term employee benefits	5,992	6,939
Post-employment benefits	31	28
Share-based payments	1,368	923
Total	7,391	7,890

Included in short term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £2,884,000 (2020: £3,243,000).

There were no retirement benefits accruing to Directors (2020: nil) under defined benefit pension schemes. Two Directors (2020: two Directors) are paying into a defined contribution scheme. There were no (2020: £100) of contributions paid to a pension scheme for qualifying services.

Certain members of key management in the Company, including the highest paid Director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Group of the total compensation earned.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. Related party transactions (continued)

(c) Transactions between the Group and entity employing key management (continued)

The aggregate amount of money receivable and the net value of assets received/receivable under share based incentive schemes in respect of Directors qualifying services was £775,000 (2020: £649,000). During the year, one Director exercised share options (2020: two Directors) and one Director received qualifying service shares under long term incentive schemes (2020: two Directors). Movements in share options are as follows:

	2021 Options	2020 Options
Outstanding at 1 January	**20,560,364**	**18,211,094**
Granted	4,280,110	14,980,633
Exercised	(2,617,693)	(4,786,638)
Forfeited	(4,626,649)	(8,117,307)
Dividends awarded	62,145	272,582
Outstanding at 31 December	**17,658,277**	**20,560,364**

Detail regarding the highest paid Director is as follows:

	2021 £'000	2020 £'000
Apportioned aggregate emoluments	1,642	1,786
Apportioned share-based payments	653	547

In both 2021 and 2020 the highest paid director exercised share options.

20. Contingent Liability

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed Lloyds Banking Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. Lloyds Banking Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £6,176,000 (including interest). Lloyds Banking Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

21. Future accounting developments

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 31 December 2021 and have not been applied in preparing these financial statements. Except as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 17 'Insurance Contracts'[1]	IFRS 17 replaces IFRS 4 Insurance Contracts and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 requires insurance contracts and participating investment contracts to be measured on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows consist of the present value of future cash flows, together with an explicit risk adjustment, and are required to be remeasured at each reporting date. The contractual service margin is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts and represents the unearned profit of the insurance contracts. Changes to estimates of future cash flows from one reporting date to another are recognised either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it. The effects of some changes in discount rates can either be recognised in profit or loss or in other comprehensive income as an accounting policy choice. The risk adjustment is released to profit and loss as an insurer's risk reduces. Profits which are currently recognised under IFRS 4 will no longer be recognised at inception of an insurance contract. Instead, the expected profit for providing insurance coverage is recognised in the contractual service margin and released to profit or loss over time as the insurance coverage is provided. The standard will have a significant impact on the accounting for the insurance and participating investment contracts issued by subsidiaries of the Company as, whilst the profits which emerge under IFRS 17 would not be different over the lifetime of an insurance contract compared to current accounting, the timing of profit recognition may differ from IFRS 4. The standard is not expected to be effective until 1 January 2023, with a transition date of 1 January 2022 (reflecting the starting point for comparative results), and management is currently unable to quantify with reasonable assurance the estimated impact on transition to IFRS 17. This is because, the impact on transition will need to incorporate economic conditions and risks at the time of the transition date, and calculation of the transition impacts is planned to be undertaken across the first half of 2022. Lloyds Banking Group's IFRS 17 project is progressing to plan. Work has focused on interpreting the requirements of the standard, developing methodologies, disclosures and accounting policies, and implementing the changes required to reporting and other systems. The development of data warehousing and actuarial liability calculation processes required for IFRS 17 reporting continues to progress, with testing underway and business readiness activity due to take place in 2022, ahead of full implementation from 1 January 2023. It is anticipated that the implementation of IFRS17 will have an impact on the financial statements of the Company through impacting the measurement of carrying values of subsidiary companies used in the review of valuations of investment in subsidiaries balances. This may impact upon future impairment charges recognised through the statement of comprehensive income.	Annual periods beginning on or after 1 January 2023
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2022 and later years

[1] At the date of this report, these pronouncements are awaiting endorsement for use in the United Kingdom.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

22. Post balance sheet events

Interim Dividends

On 3 February 2022, Scottish Widows Limited declared an interim dividend payment in respect of the year ending 31 December 2022 of £300.0 million. This was paid to the Company on 8 February 2022.

On 3 February 2022, the Company declared an interim dividend payment in respect of the year ending 31 December 2022 of £300.0 million. This was paid to Lloyds Banking Group plc on 8 February 2022.

Acquisition of the Embark Group of companies

On 31 January 2022, following receipt of FCA approval, the Company acquired Embark Group Limited together with its subsidiaries (which operates an investment and retirement platform business) for cash consideration of £376.6 million. On 1 February 2022, the Company subscribed for newly issued shares in Embark Group Limited for a cash consideration of £50m.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition or prospects. The Group will monitor the situation and risks to the business.